MONETA
Ask the CFP®

Understanding ISOs, NSOs, and RSUs

While the type of stock options granted to executives are usually determined by the company's compensation committee or board of directors, understanding the basics is helpful for tax and financial planning.

ISO INCENTIVE STOCK OPTIONS

- Tax Treatment: ISOs are eligible for favorable tax treatment if certain conditions are met. They are not taxable upon grant or exercise; however, the difference between the exercise price and the fair market value at exercise may be subject to Alternative Minimum Tax (AMT).
- Eligibility: Typically offered to employees, ISOs have specific requirements such as holding period rules to qualify for preferential tax treatment.

NSO NON-QUALIFIED STOCK OPTIONS

- Tax Treatment: NSOs are taxable upon exercise, with the difference between the exercise price and the fair market value at exercise treated as ordinary income.
- Flexibility: More flexible than ISOs, NSOs can be granted to employees, directors, contractors, and others.

RSU RESTRICTED STOCK UNITS

- Tax Treatment: RSUs are taxable at vesting, with the fair market value of the shares included as ordinary income.
- Ownership: RSUs represent a promise to grant shares once the units vest. Upon vesting, the recipient owns the shares outright.

SUMMARY

Understanding the differences between ISOs, NSOs, and RSUs is crucial for executives to optimize their equity compensation strategy. Each type of equity has unique tax implications and eligibility requirements, which can impact financial planning and tax obligations. Consult with your financial advisor to determine how the type of options in your compensation plan impact your individual financial plan. To discuss your specific situation, please email us at dtroyer@monetagroup.com.